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MTDC

Annual Report

1997

MTDC

Report of the Chairman and President

The fiscal year ended June 30, 1997 marked the 18th year of investment operations of the Massachusetts Technology Development Corporation (MTDC). During these years the Corporation continued its unique and primary mission of addressing the “capital gap” experienced by seed and early-stage technology companies as they seek investment funds.

MTDC’s investment focus is on these enterprises, through which it seeks to accomplish the following objectives:

- to help create primary employment in Massachusetts;
- to attract and leverage private investment in these companies;
- to foster the application of technological innovations through which these firms are, or can be, market leaders;
- to nurture entrepreneurship among Massachusetts citizens, planting the seeds for long-term economic development in the Commonwealth.

In this Annual Report, we highlight FY97’s accomplishments and outline MTDC’s future plans.

FY97 Investments

During the fiscal year ended June 30, 1997, Massachusetts Technology Development Corporation invested \$2,530,902, bringing cumulative investments since FY80 to \$31,738,578 among a total of 83 companies. The FY97 investments were as follows:

Four new investments from the MTDC traditional fund:

Core-M of West Newton
CytoLogix Corporation of Boston
Harvard Clinical Technology of South Natick
Rare Earth Medical of West Yarmouth

Eight follow-on investments within the existing portfolio

Two new investments from the Commonwealth Fund Investment Program:

Millitech Corporation of South Deerfield
PixelVision of Acton

Investment Returns

As of June 30, 1997 MTDC had exited, or begun to exit, its investments in 52 of the 83 companies. During FY97, MTDC’s realized gains totaled \$145,770. Realized losses totaled (\$1,243,943). Cumulative gains on equity investments since 1980 were \$21,047,668, while cumulative losses on both debt and equity investments were (\$7,891,756), for total net gains of \$13,155,912.

Subsequent to year end, on July 22, 1997 one of MTDC’s investments, MultiLink, Inc., was acquired by PictureTel Corporation. In exchange for 1,139,703 shares of MultiLink stock, MTDC received 638,236 shares of PictureTel stock, which have a cost basis of \$1.117 per share. The market value of the PictureTel stock at the closing date was \$9.188 per share. After waiting to comply with certain deadlines required by securities laws and contractual obligations, MTDC expects to sell the PictureTel stock and realize a substantial gain.

Investment Capital

While MTDC’s initial capital came from federal and state grants, the Corporation uses gains realized from past investments as the primary source of funds for current and future investments. The following summarizes the investment capital sources as of June 30, 1997:

Restricted for Investment Fund:

Economic Development Administration of the US Department of Commerce	\$ 2,972,000
Commonwealth of Massachusetts	5,200,000
Gains on previous MTDC investments	<u>14,602,200</u>
Subtotal	\$ 22,774,200

General Support Fund:

Gains allocated for SSBIC.....	\$ 600,000
Gains allocated for FY98 investments	<u>719,700</u>
Subtotal	\$ 1,319,700

PRIT Fund	\$ 2,000,000
Commonwealth Fund Co-Investors	\$ 2,000,000

Total Funds Under Management\$ 28,093,900

MTDC Commonwealth Fund Investment Program

Starting with FY96, MTDC initiated the Commonwealth Fund Investment Program with a \$5,000,000 investment pool. MTDC committed \$3,000,000, and \$1,000,000 each was committed by BancBoston Investments, Inc. and Fleet Growth Resources, Inc. Through FY97, the Corporation closed Commonwealth Fund investments totaling \$1,693,672 in five companies.

Economic Benefits

The principal objective of MTDC's Investment Program has been to assist early-stage technology companies start and/or expand in the State by commercializing technology developed in local corporations and research institutions. In this way, the Corporation helps to replenish the supply of new technology businesses whose growth in employment helps offset the inevitable decline among mature technology companies. These new Massachusetts firms become aggressive competitors in the global marketplace very early in their life cycles.

These early-stage companies provide significant employment growth opportunities and long-term value to the Massachusetts economy. As of December 31, 1996, the companies in which MTDC had invested reported that they employed in total more than 8,200 people. This employment generated a reported annual payroll of over \$396 million, federal tax revenue of over \$123 million and state tax revenue of over \$18.8 million.

Employment

Total Annual Payroll: \$396,000,000



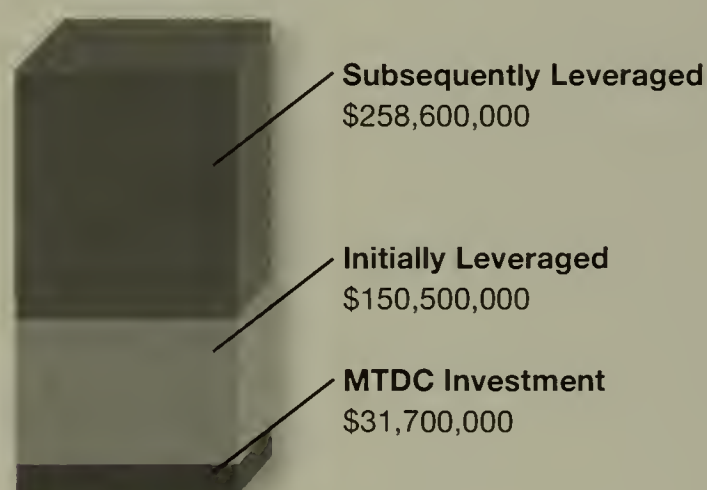
Federal Tax Revenue
\$123,000,000

State Tax Revenue
\$18,800,000

Another important measure of economic benefit to the Commonwealth is the amount of private capital that MTDC's investments have helped to leverage. As of June 30, 1997, MTDC's cumulative investment of \$31.7 million had initially leveraged \$150.5 million. In subsequent rounds of investment where MTDC did not participate, the portfolio companies raised an additional \$258.6 million. The cumulative total investments were \$440.8 million.

Investment Dollars

Total Investment: \$440,800,000



In addition to its Investment Program, MTDC provides management assistance to Massachusetts early-stage technology companies. The entrepreneurs launching these firms are usually experienced technologists, but inexperienced business people. Therefore, MTDC's Management Assistance Program focuses on strategies to increase the visibility and successful presentation of these companies to potential investors.

Future Developments

During FY98, MTDC expects significant investment harvests, including substantial realized gains. The funds provided from these harvests will continue to support the Corporation's operating expenses and replenish the Investment Fund. However, the impact of inflation alone over the past 18 years makes it imperative to plan to commit more funds to each portfolio company. This conclusion necessitates that the Corporation secure additional investment capital, and effect statutory legislative changes in its charter.

The Commonwealth Fund Investment Program previously mentioned serves as a prototype for the way MTDC will offer future opportunities to potential co-investors to participate in growing new technology enterprises in the Commonwealth while seeking superior financial returns. We expect to use this model to raise additional complementary capital for MTDC to invest on behalf of these co-investors.

MTDC Board of Directors

During FY97, there were no changes in Board membership among the private-sector members. Recently, however, Mr. Andrew Mills resigned from the Board after serving for over six years, during three of which he was Chairman. We appreciate his contributions to the success of MTDC.

We also want to thank all the Board members for providing their knowledge, experience, skill and wisdom as a *pro bono publico* service. In addition to the overall governance of the Corporation, the Board plays a critical role in reviewing and approving each investment action.

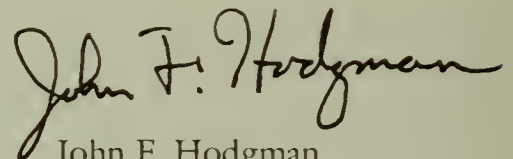
Conclusion

On October 12, 1998, MTDC will celebrate the 20th anniversary of the signing of the enabling act that created the Corporation. Since that time MTDC has consistently played a unique role among the economic development organizations of the Commonwealth. By steadily pursuing its long-term investment strategy, MTDC will continue to successfully serve its shareholders, the citizens of the Commonwealth, into the next century.

Sincerely,



Paul J. Severino
Chairman



John F. Hodgman
President

Report of Independent Accountants

Coopers
& Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

One Post Office Square
Boston, MA 02109

One International Place
Boston, MA 02110

telephone (617) 478-5000
facsimile (617) 478-5900

telephone (617) 478-5000
facsimile (617) 478-3900

To the Board of Directors of Massachusetts Technology Development Corporation:

We have audited the accompanying balance sheets of Massachusetts Technology Development Corporation as of June 30, 1997 and 1996, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included verification of investments owned as of June 30, 1997 and 1996, by examination of securities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Technology Development Corporation as of June 30, 1997 and 1996, and its revenues, expenses, and changes in fund balances and its cash flows for the years then ended in conformity with generally accepted accounting principles.



Boston, Massachusetts

August 1, 1997

Financial Statements

Balance Sheets

June 30, 1997 and 1996

ASSETS	NOTES	1997	1996
GENERAL SUPPORT:			
Cash, cash equivalents and short-term investments	4	\$ 235,832	\$ 376,019
Interest receivable		33,000	32,122
Other receivables		13,688	26,032
Prepaid expenses and deposits		21,711	24,256
Investment in licensed SSBIC	5	600,000	600,000
Leasehold improvements and office equipment – at cost, less accumulated depreciation and amortization of \$220,387 in 1997 and \$192,050 in 1996	6	49,694	63,341
Restricted cash, cash equivalents and short-term investments	4, 8	719,655	2,400,000
Total general support		1,673,580	3,521,770
RESTRICTED FOR INVESTMENT PROGRAMS:			
Cash, cash equivalents and short-term investments	4	1,468,883	1,972,863
Investments	3	13,413,562	12,981,525
Total restricted for investment programs		14,882,445	14,954,388
TOTAL ASSETS		\$16,556,025	\$18,476,158
LIABILITIES AND FUND BALANCES			
GENERAL SUPPORT:			
Accrued liabilities		73,349	136,118
Commitments and contingencies	3, 9		
Fund balance		1,600,231	3,385,652
Total general support		1,673,580	3,521,770
RESTRICTED FOR INVESTMENT PROGRAMS – Fund balance	3	14,882,445	14,954,388
TOTAL LIABILITIES AND FUND BALANCES		\$16,556,025	\$18,476,158

The accompanying notes are an integral part of the financial statements.

Statements of Revenues, Expenses, and Changes in Fund Balances

Years Ended June 30, 1997 and 1996

		1997		1996	
	NOTES	GENERAL SUPPORT	RESTRICTED FOR INVESTMENT PROGRAMS	GENERAL SUPPORT	RESTRICTED FOR INVESTMENT PROGRAMS
REVENUES:					
Gains on equity investments		\$ 145,770		\$ 83,355	
Interest		322,984		435,911	
Management fees	3, 11	36,667		44,000	
Miscellaneous.....		<u>6,508</u>		<u>8,985</u>	
Total revenues		511,929		572,251	
EXPENSES – GENERAL SUPPORT	7	1,125,350		1,234,010	
RECOGNIZED LOSSES ON INVESTMENTS.....		<u>—</u>	<u>\$ (1,243,943)</u>	<u>—</u>	<u>\$ (653,006)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	8	(613,421)	(1,243,943)	(661,759)	(653,006)
INTERFUND TRANSFERS.....	3, 8	(1,172,000)	1,172,000	—	—
FUND BALANCES, BEGINNING OF YEAR.....		<u>3,385,652</u>	<u>14,954,388</u>	<u>4,047,411</u>	<u>15,607,394</u>
FUND BALANCES, END OF YEAR		<u>\$1,600,231</u>	<u>\$14,882,445</u>	<u>\$3,385,652</u>	<u>\$14,954,388</u>

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

Years Ended June 30, 1997 and 1996

	1997			1996		
	General Support		Restricted for	General Support		Restricted for
	Unrestricted	Restricted	Investment Programs	Unrestricted	Restricted	Investment Programs
CASH FLOWS FROM GENERAL SUPPORT ACTIVITIES:						
Deficiency of revenues over expenses	\$(613,421)			\$(661,759)		
Adjustments to reconcile deficiency of revenues over expenses to cash used for General Support activities:						
Gains on sales of investments.....	(145,770)			(83,355)		
Gains on disposal of assets.....	(1,783)			(3,458)		
Depreciation and amortization.....	31,330			29,447		
Increase (decrease) in cash from:						
Interest receivable	(878)			24,762		
Other receivables	12,344			(22,032)		
Prepaid expenses and deposits.....	2,545			5,667		
Accrued liabilities.....	(62,769)			(21,837)		
Total adjustments	(164,981)			(70,806)		
Cash used for General Support activities.....	(778,402)			(732,565)		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY: Interfund transfer.....	508,345	\$(1,680,345)	\$(1,172,000)	652,000	\$ (652,000)	
CASH FLOWS FROM CAPITAL ACTIVITIES:						
Purchase of office equipment	(18,045)			(50,350)		
Disposal of office equipment	2,145			14,373		
CASH USED FOR CAPITAL ACTIVITIES	(15,900)			(35,977)		
CASH FLOWS FROM RESTRICTED FOR INVESTMENT PROGRAMS ACTIVITIES:						
Purchases of investments			(2,530,902)			\$(3,075,807)
Proceeds from the sale of investments:						
Gains	145,770			83,355		
Costs recovered	—		336,309	—		509,109
Principal repayments.....	—		518,613	—		738,847
Cash provided by (used for) Restricted for Investment Programs activities.....	145,770		1,675,980	83,355		(1,827,851)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	(140,187)	(1,680,345)	(503,980)	(33,187)	(652,000)	(1,827,851)
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR.....	376,019	2,400,000	1,972,863	409,206	3,052,000	3,800,714
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS, END OF YEAR.....	\$ 235,832	\$ 719,655	\$ 1,468,883	\$ 376,019	\$2,400,000	\$ 1,972,863

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Years Ended June 30, 1997 and 1996

1. Organization and Operations:

Massachusetts Technology Development Corporation (the "Corporation") was created as a body politic and instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") on October 19, 1978, pursuant to Chapter 497 of the Acts of 1978. The purpose of the Corporation is to provide financial and other assistance to innovative enterprises in Massachusetts that have the potential to expand and generate new jobs and tax revenues. The Corporation is governed by a Board of Directors consisting of eleven members, eight of whom are appointed by the Governor from the private sector and three of whom are public officials.

2. Summary of Significant Accounting Policies:

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles as applied to government units. The Government Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Corporation's accounting policies are described below.

Fund Accounting

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included in the balance sheet. Fund balances (i.e., net total assets) are segregated into General Support and Restricted for Investment Programs components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized for all funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the related liability is incurred.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Short-Term Investments

Short-term investments are those with original maturities in excess of three months but less than one year and are valued at cost, which approximates market. The Corporation has approximately \$281,000 and \$1,510,000 in short-term investments as of June 30, 1997 and 1996, respectively.

Leasehold Improvements and Office Equipment

Leasehold improvements and office equipment are stated at cost. Office equipment is being depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to ten years. Leasehold improvements are amortized on a straight-line basis over the shorter of the improvement's useful life or the term of the related lease.

Upon retirement or sale, the cost of the assets disposed and the related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in the determination of the excess (deficiency) of revenues over expenses.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued):

Investments

The Corporation's investment securities are purchased in the name of the Corporation and are maintained in a vault at a financial institution. These investments are generally in early-stage technology companies.

Investments, consisting of notes receivable and investments in capital stock (Note 3), are generally not readily marketable and are recorded at cost. In the opinion of management, the estimated aggregate fair value of investments was in excess of cost at June 30, 1997 and 1996. Interest is credited to the Corporation's General Support Fund Balance. Gains on investments are credited to the Corporation's General Support Fund Balance when realized, and losses are charged against the Restricted for Investment Programs Fund Balance when realized. Repayments of principal and proceeds from the sale of equity investments (to the extent of the cost basis) remain in funds restricted for investment programs. During the years ended June 30, 1997 and 1996, the Corporation realized gains on sales of investments totaling \$145,770 and \$83,355, respectively. For the years ended June 30, 1997 and 1996, the Corporation charged \$1,243,943 and \$653,006, respectively, against restricted funds as losses on investments.

Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Income Taxes

The Corporation, as an instrumentality of the Commonwealth, is not subject to federal or state income taxes.

Reclassifications

Certain reclassifications were made to the prior year's financial statements to conform to the current year's presentation.

3. Investment Program:

Sources of Funds

The Corporation's original investment funds were provided in 1979 by a \$2,000,000 grant (including \$28,000 in start-up costs) from the Economic Development Administration ("EDA"), U.S. Department of Commerce. Under this grant, the Corporation makes loans from a revolving loan fund to eligible borrowers, defined as Massachusetts-based businesses with operations involving a significant amount of technology, which are located in EDA Title IV redevelopment areas and which meet the requirements of the Corporation's enabling act.

During the year ended June 30, 1981, the Corporation was awarded a \$1,000,000 grant under the Corporations for Innovation Development ("CID") program of the U.S. Department of Commerce. The grant award is for the purpose of establishing a second revolving loan fund to assist in the creation and development of small, innovative high-technology companies in Massachusetts. In addition, the Commonwealth appropriated \$1,000,000 to the Corporation as matching funds for the federal grant. The Commonwealth appropriation is restricted to equity investments.

Each year from fiscal years 1982 to 1988, the Commonwealth appropriated additional amounts to supplement the Corporation's investment fund. Since fiscal year 1988, no such appropriations have been made. At June 30, 1997, the cumulative amount of these appropriations totaled \$4,200,000.

Under the terms of the grants of investment funds from the federal government and the Commonwealth, principal repayments and costs recovered are returned to the Restricted for Investment Programs Fund to be reinvested in accordance with the criteria required by the grants' provisions and the Corporation's enabling legislation and policies. In addition, the Board of Directors of the Corporation has transferred approximately \$14,602,200 cumulatively through fiscal year 1997 to the Restricted for Investment Programs Fund to be reinvested in accordance with the criteria required by the Corporation's enabling legislation and policies. The transferred funds were derived from earnings and gains realized on past investments by the Corporation.

During the year ended June 30, 1997, the Board of Directors voted to transfer up to \$1,400,000 from the General Support funds restricted for certain investment-related activities and up to \$873,000 from the General Support Fund operating reserve to the Restricted for Investment Programs Fund on an as-needed basis. Actual transfers to the Restricted for Investment Programs Fund totaled \$1,172,000 in fiscal 1997. No transfer to the Restricted for Investment Programs Fund occurred in fiscal 1996.

The total funds, since inception of the Corporation, which have been made available for investments are as follows:

Economic Development Administration of the U.S. Department of Commerce, net of start-up costs		\$ 2,972,000
Commonwealth of Massachusetts		5,200,000
Gains on sales of equity securities allocated to General Support Fund	\$21,047,688	
Portion of gains used for General Support activities	<u>(6,445,467)</u>	
Transfers to the Restricted for Investment Programs Fund		<u>14,602,201</u>
Total funds made available for investment		22,774,201
Losses on investments		<u>(7,891,756)</u>
Restricted for Investment Programs Fund balance		<u>\$14,882,445</u>

MTDC Commonwealth Fund

On July 19, 1993, Section 105 of Chapter 110, MGL Acts of 1993, was enacted which authorized the Board of Directors to establish the MTDC Commonwealth Fund. Pursuant to this Chapter, at the July 29, 1993 Board Meeting, the Board of Directors approved the allocation of \$1,000,000 to establish said fund. Subsequently, during fiscal 1994, the Board of Directors voted to restrict an additional \$200,000 for MTDC Commonwealth Fund investments. During fiscal 1995 the Board of Directors authorized an additional commitment of \$2,100,000, bringing the Corporation's total commitment to \$3,300,000. The investments made by MTDC through the Commonwealth Fund are included in the Restricted for Investment Programs Fund Balance. Pursuant to the guidelines of the Chapter, the investment criteria for funds managed under the Commonwealth Fund are less restrictive than for the Corporation's traditional programs.

Also pursuant to this Chapter, the Corporation undertook an effort to seek co-investors through its Commonwealth Fund Investment Program (the "Program"). During fiscal 1995, two financial institutions agreed to participate in the Program, committing \$1,000,000 each. Funds received in advance from co-investors are separately maintained and these funds are not included in MTDC's Restricted for Investment Programs Fund Balance.

The Corporation manages the Program and receives a management fee and a residual interest in the investments of the Program. In fiscal 1997 and 1996, respectively, the Corporation earned \$36,667 and \$45,000, respectively, in management and organizational fees.

Notes to Financial Statements

3. Investment Program (continued):

Investments

During the years ended June 30, 1997 and 1996, the Corporation made loans and equity investments in aggregate amounts of \$2,530,902 and \$3,075,807, respectively. The notes in the portfolio have interest rates varying from 8.16% to 13% per year. The terms of certain notes include an equity participation feature such as rights to convert to stock at a predetermined price or warrants to purchase common stock. Repayment of principal is generally due on demand, in a balloon payment, or in monthly installments ranging from thirty-six to sixty months, commencing six months to five years from the date of the loan. Such principal payments, however, are generally subordinated to the payment of senior debt of the borrowers.

A summary of investment activity is as follows:

	NOTES RECEIVABLE	EQUITY INVESTMENTS	TOTAL
Investments made:			
1980 through 1995	\$14,962,227	\$11,169,642	\$26,131,869
1996	1,689,300	1,386,507	3,075,807
1997	1,200,466	1,330,436	2,530,902
Total investments	17,851,993	13,886,585	31,738,578
Conversions of loan principal to equity	(6,441,695)	6,441,695	—
Less loan principal repayments and equity investment cost recovered	(6,205,229)	(4,228,031)	(10,433,260)
Gains on sales of equity securities – 1982 through 1997		21,047,668	21,047,668
Allocation of gains to General Support Fund		(21,047,668)	(21,047,668)
Losses on investments:			
1983 through 1995	(1,860,341)	(4,134,466)	(5,994,807)
1996	(273,000)	(380,006)	(653,006)
1997	(398,200)	(845,743)	(1,243,943)
Total losses	(2,531,541)	(5,360,215)	(7,891,756)
Investment balance, June 30, 1997	\$ 2,673,528	\$10,740,034	\$13,413,562

As of June 30, 1997, the investment portfolio consisted of the following types of securities as a percentage of the General Support and Restricted for Investment Program Fund Balances ("Fund Balance"): Common stock 20.3%, preferred stock 44.3%, convertible debt 7.3%, notes 8%, and other 1.5%. At June 30, 1997 no investments in any one Company represented more than 5% of the Fund Balance except Interactive Video Systems, Inc., which was 6.4% of the Fund Balance.

As of June 30, 1997 and 1996, there were outstanding commitments for loans and equity investments totaling \$777,000 and \$1,295,000, respectively. In addition, the Corporation had guaranteed bank loans totaling \$173,000 as of June 30, 1997 and 1996.

4. Cash, Cash Equivalents and Short-Term Investments:

The Corporation maintains operating cash accounts and other short-term investment securities, primarily certificates of deposit, to fund operations and to provide appropriate reserves for the Corporation's investment programs.

At June 30, 1997, the carrying amount of all of the Corporation's cash, cash equivalents and short-term investments was \$2,424,370, all held in financial institutions. Of these balances at June 30, 1997, approximately \$767,708 was insured, \$620,000 was collateralized, and \$1,036,662 was uninsured and uncollateralized, of which \$924,600 was on deposit with the Massachusetts Municipal Depository Trust.

5. Investment in Licensed SSBIC:

As directed by Chapter 19 of the Acts of 1993, a \$600,000 commitment for 26% ownership in a licensed SSBIC (Specialized Small Business Investment Corporation), is presented separately on the balance sheet. This investment is accounted for using the cost method.

6. Leasehold Improvements and Office Equipment:

Leasehold improvements and office equipment were as follows at June 30, 1997 and 1996:

	1997	1996
Office equipment	\$256,795	\$242,105
Leasehold improvements.....	13,286	13,286
Total	270,081	255,391
Less accumulated depreciation and amortization	220,387	192,050
Leasehold improvements and office equipment	<u>\$ 49,694</u>	<u>\$ 63,341</u>

7. General Support Expenses:

The General Support expenses for the years ended June 30, 1997 and 1996 were as follows:

	1997	1996
THE CORPORATION'S PROGRAMS:		
Personnel costs	\$ 855,504	\$ 832,257
Professional expenses.....	42,620	108,375
Occupancy costs	90,054	94,936
Office services and supplies	69,434	64,496
Travel, meetings and conferences.....	28,967	30,834
Publications and advertising	18,343	27,992
Miscellaneous	10,204	18,522
Subtotal expenses	1,115,126	1,177,412
Jointly sponsored programs – Quasi-public Corporation Planning Council projects	10,224	56,598
Total expenses.....	<u>\$1,125,350</u>	<u>\$1,234,010</u>

Notes to Financial Statements

8. Restricted Cash – General Support:

During the year ended June 30, 1996, \$652,000 of the General Support operating reserves were used for operations. At June 30, 1996, the Board of Directors voted to increase the operating reserves to \$1,000,000. The ending balances for the General Support funds restricted for certain investment-related activities and for operating reserves at June 30, 1996 were \$1,400,000 and \$1,000,000, respectively.

During the year ended June 30, 1997, \$508,345 of the General Support operating reserves were used for operations. Also during the year ended June 30, 1997, \$1,172,000 was transferred from the General Support funds restricted for certain investment-related activities to the Restricted for Investment Programs Fund. The ending balances for the General Support funds restricted for certain investment-related activities and for operating reserves at June 30, 1997 were \$228,000 and \$491,655, respectively.

9. Office Facility Lease:

The Corporation has a lease commitment for office space extending through May 31, 2002. The agreement provides for base rent plus operating expenses and tax escalation clauses. Rent expense for the years ended June 30, 1997 and 1996 was approximately \$75,160 and \$80,620, respectively. Future minimum lease payments are as follows:

1998	\$104,063
1999	104,063
2000	104,525
2001	109,613
2002	100,478
	<u>\$522,742</u>

10. Employee Retirement Plan:

The Corporation provides retirement benefits for substantially all employees through a simplified employee pension plan (“SEPP”). The Corporation makes contributions to individual retirement accounts (“IRAs”) of employees in amounts equal to 15% of an employee’s gross annual salary, not to exceed the maximum amount allowable by federal law. Quarterly contributions are distributed to the eligible employee’s IRA at Fidelity Investments. The Corporation has no fiduciary responsibility for these investments. Contribution expense for 1997 and 1996 approximated \$103,910 and \$97,000, respectively.

11. Management Fee Income:

The Corporation has an agreement with the Pension Reserves Investment Trust (“PRIT”), a Massachusetts state employee pension trust, whereby the Corporation will provide investment advisory and management services relative to \$2 million of PRIT assets. The Corporation received an annual management fee of \$4,000 for services rendered in 1996. There were no management fees required in 1997. In addition, the Corporation is entitled to receive 20% of all distributions resulting from the sale of investments after the original contribution to its investment account of \$2 million and the cumulative management fees of \$492,000 paid to MTDC have been returned to PRIT. As of June 30, 1997, cumulative distributions returned to PRIT from its investment account totaled approximately \$1,398,000, of which \$491,000 resulted from gains on investments. This agreement expires on March 31, 1998.

12. Subsequent Event:

On July 22, 1997, one of the Corporation’s investments, MultiLink, Inc., was acquired by PictureTel Corporation. In exchange for 1,139,708 shares of MultiLink stock, MTDC received 638,236 shares of PictureTel stock, which have a cost basis of \$1.117 per share. The market value of the PictureTel stock at the closing date was \$9.188 per share.

MTDC Board of Directors

BOARD OF DIRECTORS

PAUL J. SEVERINO

Chairman

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Accounting and

Portfolio Data Assistant

**Massachusetts Technology
Development Corporation**

148 State Street
Boston, Massachusetts 02109

TEL 617 723-4920

FAX 617 723-5983

WEB www.mtdc.com

